

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 IGA-02 L-03 H-01 FEA-01 INT-05

ABF-01 AGRE-00 /092 W

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R 051505Z MAY 77

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 5126

C O N F I D E N T I A L SECTION 01 OF 02 KINGSTON 2215

STATE PASS AID

E.O. 11652: GDS

TAGS: EFIN, EAID, JM

SUBJECT: US/GOJ ECONOMIC DISCUSSIONS TUESDAY, MAY 3 - BUDGET/
BALANCE OF PAYMENTS SUB-GROUP

1. JOINT US/JAMAICA TEAM ON ECONOMIC COOPERATION SPLIT INTO TWO SUB-GROUPS MAY 3: ONE TO DISCUSS TRADE RELATED ISSUES AND ANOTHER TO DISCUSS BUDGET AND BALANCE OF PAYMENTS DETAILS. FOLLOWING IS REPORT ON BALANCE OF PAYMENTS. TRADE DISCUSSIONS REPORTED SEPTTEL.

2. IN MORNING MEETING AT BANK OF JAMAICA, GOVERNOR G. ARTHUR BROWN, AND DONOR M. LION PRESIDED. US SIDE OPENED MEETING BY MAKING REQUEST FOR VARIETY OF DATA WHICH BOJ OFFICIALS PROMISED TO PROVIDE.

3. BOJ DEPUTY GOVERNOR BONNICK TABLED PAPER WHICH SHOWBN EFFECTS ON JAMAICAN ECONOMY OF A "TOTAL SELF-RELIANCE PROGRAM". HIGHLIGHT OF THE PAPER WAS A PROJECTION INDICATING THAT JAMAICA'S REAL GDP WOULD DROP BY OVER 21 PERCENT IN 1977 AND 18 PERCENT V 1978 IF IMPORTS ARE KEPT AT \$541
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MILLION IN 1977. BONNICK INDICATED THAT THE PAPER HAD BEEN PREPARED TO BUTTRESS THE ARGUMENT OF THE MODERATES WITHIN THE GOJ. BONNICK INDICATED THAT UNEMPLOYMENT WOULD INCREASE TO 33 TO 37 PERCENT IN 1977 UNDER THIS WORST-CASE SCENERIO. HIS PAPER ALSO INDICATED THAT AN IMPORT LEVEL OF \$750 MILLION COULD RESULT IN A STABLE ZERO GROWTH PROJECTION FOR 1977.

4. ON THE QUESTION OF EXISTING INVENTORIES, BROWN SAID THAT THE COUNTRY HAS BEEN LIVING OFF ITS HIGH INVENTORY PROFILE FOR THE PAST YEAR. HE ESTIMATED THAT BY SEPTEMBER, SERIOUS SHORTAGES WILL APPEAR AND THE DISTRIBUTIVE TRADE WILL BE AFFECTED DRASTICALLY.

5. BROWN EXPLAINED JAMAICA'S REQUIREMENTS FOR \$150-200 MILLION PER YEAR IN FOREIGN EXCHANGE OVER A 3-5 YEAR PERIOD. HE WAS ASKED WHY THE AMOUNT DOES NOT GRADUALLY DECLINE OVER THIS PERIOD. BROWN SAID THAT THE 3-5 YEAR PROJECTION IS DESIGNED TO ALLOW FOR SOME GROWTH (AND GROWTH IN CONSUMPTION) IN THE ECONOMY. HE ALSO SAID THAT THE COUNTRY CAN NOT CONTINUE TO EXIST WITH NEGATIVE NET RESERVES AND THEREFORE IT IS HOPED THAT DURING THE 3-5 YEAR PERIOD JAMAICA CAN RE-ESTABLISH ITS NET FOREIGN RESERVES AT \$100-150 MILLION. BROWN ALSO POINTED OUT THAT THE NATURE OF THE DEBT STRUCTURE IS SUCH THAT MOST OF THE PAYMENTS ON LOANS NEGOTIATED 5-7 YEARS AGO WILL BE PAYABLE DURING THE NEXT 3-5 YEARS. BROWN NOTED, HOWEVER, THAT NOT ALL OF THE \$150-200 MILLION WOULD NECESSARILY COME FROM PUBLIC SOURCES. THE GOVERNMENT OF JAMAICA HOPES TO BE ABLE TO RETURN TO THE COMMERCIAL MARKET AFTER 1977.

6. BROWN SAID THE TWO-TIERED EXCHANGE RATE IS INHERENTLY UNSTABLE. HE EXPECTS THAT TWO TYPES OF ADJUSTMENTS WILL BE MADE. DURING THE COURSE OF THE NEXT MONTH, THE BANK WILL HAVE TO MOVE TO MEET PARTICULAR PROBLEMS WHICH ARISE WITH RESPECT TO ADJUSTMENTS BETWEEN THE TWO RATES. A GENERAL

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REVIEW OF THE TWO-TIERED STRUCTURE WILL BE UNDERTAKEN IN OCTOBER. HE NOTED THAT MAY OF THE OBJECTIVES OF THE TWO-TIERED RATE CAN BE ACCOMPLISHED WITHIN THE FRAMEWORK OF A SINGLE RATE SYSTEM IF BASIC FOODS ARE SUBSIDIZED AND ADJUSTMENTS ARE MADE IN PETROLEUM TAXES AND IN THE BAUXITE INDUSTRY.

7. BROWN SAID THAT 37-1/2 PERCENT DEVALUATION FIGURE WAS REACHED BY ANALYSIS OF THE CONSUMER INDICES IN JAMAICA AND IN JAMAICA'S TRADING PARTNERS WITH DUE COMPENSATION FOR EXCHANGE RATE CHANGES. ON THE BASIS OF THESE CALCULATIONS, IT WAS DECIDED THAT A 35-40 PERCENT DEVALUATION WAS REQUIRED.

8. BONNICK SPOKE OF THE POSSIBILITY OF INCREASING EXPORT EARNINGS OVER THE NEXT 1-2 YEARS. HE HIGHLIGHTED THE CONSTRAINTS AND CONCLUDED THAT MANUFACTURING EARNINGS COULD INCREASE BY 25-30 PERCENT BUT NOTED THAT THIS REPRESENTED A REAL INCREASE OF ONLY FROM \$70 MILLION TO \$90 MILLION.

9. BROWN REVIEWED THE EXPECTED SOURCES OF FOREIGN EXCHANGE ON THE NEAR TERM.

A. IMF: JAMAICA HOPES TO RECEIVE TWO CREDIT TRANSHEES UNDER THE STANDBY FACILITY. EACH TRANCHE WOULD BE ABOUT US\$25 MILLION, ONE WOULD BE AVAILABLE BY MID-JULY; THE OTHER HALF WOULD BE AVAILABLE IN OCTOBER. BROWN EXPLAINED THAT IF THE IMF MANAGING DIRECTOR APPROVES THE JAMAICAN FIRST TRANCHE IN JUNE, IT WILL BE POSSIBLE TO SECURE BRIDGING FINANCE FROM THE LOCAL COMMERCIAL BANKS TO MEET THE EXPECTED FOREIGN EXCHANGE SQUEEZE THAT MONTH.

IN THE LONGER TERM, BROWN SAID HE EXPECTS JAMAICA TO APPLY TO THE IMF FOR ABOUT US\$100 MILLION OVER THREE YEARS FROM THE EXTENDED FUND FACILITY. THIS WOULD BE BASED ON A COMPREHENSIVE THREE-YEAR PROGRAM AND WOULD BE ALLOCATED IN SEVERAL TRANCHES, THE FIRST OF WHICH WOULD NOT BE CONFIDENTIAL

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AVAILABLE UNTIL THE FIRST QUARTER OF 1978.

FINALLY, BROWN SAID JAMAICA BELIEVES IT CAN QUALIFY AS A RECIPIENT UNDER THE NEW IMF FACILITY (PRESENTLY BEING FORMED). HE ESTIMATED ("WILD GUESS") THAT THIS WOULD AMOUNT OF US\$50 MILLION AND WOULD BE AVAILABLE IN OCTOBER.

B. IBRD: ONE OF THE ADVANTAGES OF QUALIFYING FOR THE IMF EXTENDED FUND FACILITY, SAID BROWN, WOULD BE THAT JAMAICA WOULD THEREBY MEET ONE OF THE REQUIREMENTS FOR AN IBRD PROGRAM LOAN. HE SAID HE EXPECTS THE IBRD TO "OPEN UP WITH MORE UNDERSTANDING." HE DID NOT QUANTIFY THE

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ACTION ARA-10

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SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
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R 051505Z MAY 77
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 5127

C O N F I D E N T I A L SECTION 2 OF 2 KINGSTON 2215

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THE AMOUNT ON THE TIMING BUT NOTED THAT ANY IBRD LOAN
WOULD DEPEND ON ECONOMIC PERFORMANCE.

C. VENEZUELA: BROWN SAID HE EXPECTS VENEZUELA TO
RENEW ITS \$50 MILLION OIL FACILITY WHEN THE CURRENT
FACILITY EXPIRES THIS YEAR. THIS WOULD PROVIDE
JAMAICA WITH \$6-1/4 MILLION PER QUARTER STARTING AT THE
END OF SEPTEMBER 1977. THE FACILITY IS TIED TO SPECIFIC
DEVELOPMENT PROJECTS.

D. TRINIDAD: BROWN SAID NEGOTIATIONS ARE BEING FINALIZED
FOR AN ASSISTANCE STRUCTURE FROM TRINIDAD IN THE AMOUNT OF
\$50 MILLION. THE REMAINING STUMBLING BLOCK IS TRINIDAD'S
INSISTENCE ON A CORRESPONDING IMPORT PACKAGE. BECAUSE OF
THIS THE TRINIDADIAN LOAN CAN BE SEEN AS ONLY A PARTIAL
GAIN. IT HAS ALREADY BEEN INCLUDED IN GOJ CALCULATIONS
AND WOULD NOT AID THE ESTIMATED \$150-200 FINANCIAL GAP.

E. BROWN SAID THAT ASSISTANCE IS ALSO EXPECTED FROM THE US
AND CANADA AND "ANY OTHER SOURCE THE GOVERNMENT CAN FIND."
HE NOTED THAT THE IMF'S FIRST TRANCHE AND A CANADIAN ROLL-OVER
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WOULD MAKE IT POSSIBLE FOR THE GOVERNMENT TO LIVE THROUGH
MAY AND JUNE ASSUMING EVERYTHING ELSE FALLS INTO PLACE.
THE SHORT-TERM CASH-FLOW CRISIS WILL BE EASED WHEN
THE \$60.7 MILLION OF BAUXITE LEVY COMES PAYABLE ON THE
FIFTEENTH OF JULY. (FYI: US TEAM SUBSEQUENTLY CONFIRMED THAT CANADA
HAS, IN FACT, AGREED TO ROLL OVER ITS \$25 MILLION LOAN UNTIL
SEPTEMBER 1977.)
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